

**CITY OF
ASHLAND**



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For year ended June 30, 2010**

Prepared by the Administrative Services Department
Lee Tuneberg, Administrative Services and Finance Director



INTRODUCTORY SECTION

Page

Letter of Transmittali-ix
 Certificate of Achievement for Excellence in Financial Reporting xi
 Elected City Officials..... xii
 Appointed City Officials..... xii
 Map of City of Ashland..... xiv
 Organization Chart xv
 Report of Audit Committee..... xvii

FINANCIAL SECTION

Independent Auditor’s Report 3-4
 Management’s Discussion and Analysis..... 5-18

Basic Financial Statements:

 Government - Wide Financial Statements:

 Statement of Net Assets 21
 Statement of Activities..... 22-23

 Fund Financial Statements:

 Balance Sheet - Governmental Funds 24
 Reconciliation of Balance Sheet of Governmental Funds
 to Statement of Net Assets 25
 Statement of Revenues, Expenditures and Changes in Fund
 Balances - Governmental Funds 26
 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
 Of Governmental Funds to Statement of Activities 27
 Statement of Net Assets - Proprietary Fund..... 28
 Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds..... 29
 Statement of Cash Flows - Proprietary Funds..... 30

Notes to Basic Financial Statements (an integral part of the financial statements) 32-64

Required Supplementary Information:

 General Fund: Schedule of Revenues, Expenditures and Changes in Fund
 Balance - Budget and Actual 69
 Street Fund: Schedule of Revenues, Expenditures and Changes in Fund
 Balance - Budget and Actual 70

Supplementary Information:

 Combining Balance Sheet - All Non-Major Funds 73
 Combining Statement of Revenues, Expenditures and Changes in Fund
 Balances - All Non-Major Funds 74

table of contents

	<u>Page</u>
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
CDBG Fund	75
Reserve Fund.....	76
Airport Fund	77
Debt Service Fund	78
Capital Improvements Fund	79
Cemetery Trust Fund	80
Schedule of Revenues, Expenditures, and Changes in Net Assets - Budget and Actual:	
Water Fund	81
Wastewater Fund	82
Electric Fund	83
Telecommunications Fund	84
Consolidating Balance Sheet - Internal Service Funds.....	85
Consolidating Statement of Revenues, Expenses, and Changes in Net	
Asset - Internal Service Fund.....	86
Combining Internal Service Fund Statement of Cash Flows	87
Schedule of Revenues, Expenditures and Changes in Net Assets - Budget and Actual:	
Central Services Fund	88
Insurance Services Fund	89
Equipment Fund	90
Capital Assets Used in the Operation of Governmental Funds - By Source	92
Schedule of Assets Used in the Operation of	
Governmental Funds - By Function and Activity	93
Schedule of Bond Principal and Interest Transactions	94-95
Schedule of Property Tax Transactions Collected and Uncollected	96
Schedule of Property Tax Transactions and Balances of Taxes Uncollected	97
Schedule of Receipts, Disbursements and Balances	98

STATISTICAL SECTION (UNAUDITED) - TOTAL REPORTING ENTITY

Financial Trends

Statement of Net Assets, Governmental Activities, as of June 30,	102-103
Statement of Net Assets, Business-type Activities, as of June 30,	104-105
Changes in Net Assets, Governmental Activities, as of June 30,	106-107
Changes in Net Assets, Business-type Activities, as of June 30.....	108-109
Fund Balances, Governmental Funds, Last Ten Year.....	110-111
Changes in Fund Balances, Governmental Funds, Last Ten Years	112-113
Fund Balance Comparison, Last Ten Years	114-115

Revenue Capacity

Assessed and Estimated Actual Value of Taxable Property, for the last ten fiscal years	116
Property Tax Rates- Direct and Overlapping Governments, for the last ten fiscal years	117
Property Value and New Construction History, for the last ten fiscal years	118
Food and Beverage Tax Revenues by Fund, for the last ten fiscal years	119
Principal Property Taxpayers, Current Year and Ten Years Ago.....	120-121
General Governmental Tax Revenues by Source for the last ten fiscal years	122
Property Tax Levies and Collections, for the last ten fiscal years	123

Electric Utility Usage, for the last ten fiscal years.....124-125

Debt Capacity

Ratio of Net General Obligation Bonded Debt to Assessed Value
and Net General Obligation Bonded Debt Per Capita, for the last ten fiscal years 126

Ratio of Annual Debt Service Expenditures for General Bonded Debt
to Total General Expenditures, for the last ten fiscal years 127

Pledged Revenue Coverage, Water Fund, for the last ten fiscal years 128

Ratios of Outstanding Debt By Type, Last Eight Years 129

Legal Debt Margin, Last Ten Years 130-131

Computation of Legal Debt Margin, June 30, 2010 132

Computation of Direct and Overlapping Bonded Debt,
General Obligation Bonds, June 30, 2010 133

Economic & Demographic Information

Principal Employers, Current Year and Ten Years Ago..... 134

Demographic Statistics, for the last ten fiscal years 135

Operating Information

Schedule of Major Insurance in Force 136

City Employee By Function/Program, for the Fiscal Year ended June 30, 137

Operating Indicators By Function/Program, Last Ten Years 138-139

Capital Assets and Infrastructure Statistics By Function/Program, Last Ten Years 140-143

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

Minimum Standards for Audits of Oregon Municipal Corporations 147

Report of Independent Auditors 148-150

Government Auditing Standard Compliance Reports..... 151-159



INTRODUCTORY SECTION



CITY OF ASHLAND

October 25, 2010

Re: City of Ashland Comprehensive Annual Financial Report

To the Citizens of the City of Ashland:

The Comprehensive Annual Financial Report of the City of Ashland, for the fiscal year ended June 30, 2010, is hereby submitted as mandated by state statutes. These statutes require that the City of Ashland issue an annual report on its financial position and activity and that this report be audited by an independent firm of certified public accountants licensed by the State of Oregon to conduct municipal audits. This report must be published within six months of the close of each fiscal year and responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and is reported in a manner designed to fairly present the financial position and the results of operations of the various funds and, component unit of the City of Ashland. All disclosures necessary to enable the reader to gain an understanding of the City of Ashland's activities have been included.

The independent auditor concluded, based upon their audit, that there was a reasonable basis for rendering an unqualified opinion and that the City's financial statements for the year ended June 30, 2010 are presented in conformity with Generally Accepted Accounting Principals (GAAP). The independent auditor's report is presented as the first component of the financial section of this report. It is followed by a Management Discussion and Analysis report on pages 5 through 18. The reader is encouraged to review these pages for a better understanding of the City, its financial condition and activities for the year.

The financial reporting entity includes all the funds of the City of Ashland, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides a full range of services which include police protection, fire protection, building inspection, planning services, economic development, social services, senior program, ambulance, electric, cable television and internet access, water, streets, storm drain, wastewater, airport, cemetery, band, parks and recreation activities.

The Parks and Recreation Commission activities are reported as a discretely presented component unit. The discretely presented component unit is reported in a separate column in the government-wide financial statements. This emphasizes that it is operated autonomously and accounted for separately from the primary government. It also differentiates its financial position, results of operations and cash flows from those of the primary government.

GOVERNMENTAL STRUCTURE, ECONOMIC CONDITIONS AND OUTLOOK

The City, incorporated in 1874, is located in the southwest part of the state. The City currently has a land area of 6.52 square miles and a population of 21,505. The government has all powers necessary or convenient for the conduct of its municipal affairs, including the power to levy a property tax on both real and personal property located within its boundaries. The City also has the power by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the governing council.

The City operates under the council-administrator form of government. Policymaking and legislative authority are vested in the City Council. The governing council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees and hiring the City Administrator and the City Attorney. The City Council consists of a mayor and six-member council. The Mayor, who presides at the council meetings, is elected at-large for a four-year term. Six council members are elected at-large for four-year staggered terms with three council members elected every two years. Other elected officials are the City Recorder/Treasurer, Municipal Judge, and the five-member Parks and Recreation Commission.

The City Administrator has responsibility for all functions with the exception of the Parks Commission. The City Administrator recommends the appointment or dismissal of department heads (Fire Chief, Police Chief, Public Works Director, Community Development Director, Administrative Services/Finance Director, Electric Director and Information Technology Director). The Mayor, with confirmation of the City Council, appoints the City Administrator, the City Attorney, the departments heads, and the Band Board. The City Administrator is responsible for carrying out the policies and ordinances of the City Council, and overseeing the day-to-day operations of the City.

In addition to the help they receive from their appointed staff and employees, 21 standing advisory boards and commissions, and additional ad hoc committees assist the City Council. Over 135 Ashland citizens serve on these boards and commissions and make a valuable contribution to the City of Ashland.

The City of Ashland's economic base depends primarily on higher education and tourism. In addition, the U.S. Fish and Wildlife National Forensics Laboratory is located in Ashland. It is the only crime lab in the world dedicated entirely to wildlife and serves both the national and international communities. Ashland's downtown business district has a high occupancy rate with a variety of shops, restaurants, commercial businesses, and financial institutions. The state has a major economic presence in the area in Southern Oregon University (SOU), which is located on a 175 acre campus within the city limits approximately one mile from the city center.

According to the State of Oregon Employment Department, Ashland has an employed work force of approximately 9,000. When governments and non-profits beyond the scope of licensing are included, the total work force is an estimated 10,329. A return of some parts of the economy is appearing with early reports on better ticket sales, local tax revenues and school enrollments. Examples are the Transient Occupancy Tax and Food and Beverage Tax revenue (for all business activities as presented in tables in the Statistical section). Transient Occupancy Tax revenue increased 14.7% and Food & Beverage tax revenue increased 5.9%. It is not uncommon to have local taxes, especially those relating to tourism, to "lead" the tax revenues from other tax revenues relating to construction.

In 2009-2010 the City issued \$15.6 million dollars in building permits, with 96% coming from residential permits. The commercial construction permit values for 2009-2010 remained at a 10 year low of only 4 units with a total stated value of \$611,406 representing the other 4%. Total assessed property value increased 3.3% during the year.

The estimated consumer economy is \$228 million according to the 1997 US Economic Census, an increase of 13% over the \$202 million estimated in 1992. Using city tax collection information, visitor accommodations (over \$16 million) and food service (over \$15 million) accounted for 23% of the economy. The success of these aspects can be greatly attributed to tourism generated by cultural attractions, the largest of which is the Oregon Shakespeare Festival Association (OSFA), a nationally renowned theater company presenting eleven plays over a season from February through October to an estimated attendance over 350,000. OSFA employs 5% of the total work force in the City limits, and has an estimated impact on the local economy of over \$100 million based on the 2.9 multiplier provided by the 1997 economic census.

INITIATIVES

The City Council identified several major goals in 2008 to meet the needs of citizens and community and worked toward a broader base of input from the Community in 2009. It established goals within six primary areas during FY 2010. The goals reflect the City's commitment of ensuring that its citizens are able to live and work in an enviable environment.

In February 2010 the City Council set the following goals for the next 12 to 24 months:

2010-2011 CITY COUNCIL GOALS

OVERVIEW

The City Council has set goals for the next 12 to 24 months to continue Ashland's history as a community that focuses on sustaining itself and its people. To us, sustainability means using, developing and protecting resources at a rate and in a manner that enables people to meet their current needs and also provides that future generations can meet their own needs. The City of Ashland has a responsibility towards sustainability in six primary areas:

- Economy
- Environment
- Social Equity
- Municipal Organization
- Public Facilities
- Partnerships

ECONOMY

Develop and implement a comprehensive economic development strategy for the purpose of:

- Diversifying the economic base of the community
- Supporting creation and growth of businesses that use and provide local and regional products
- Increasing the number of family-wage jobs in the community
- Leveraging the strengths of Ashland's tourism and repeat visitors

Develop an implementing strategy for funding infrastructure and public facilities for economic development projects.

Increase the clarity, responsiveness, and certainty of the development process.

ENVIRONMENT

Develop an integrated land use and transportation plan to increase the viability of transit, bicycles, walking and other alternative modes of transportation; reduce per capita automobile vehicle miles traveled; provide safe walking and bicycling routes to home, work, shopping and schools; implement environmentally responsible design standards, and minimize new automobile-related infrastructure.

Adopt an integrated Water Master Plan that addresses long-term water supply including climate change issues, security and redundancy, watershed health, conservation and reuse, and stream health.

Implement specific capital projects and operational programs to ensure that City facilities and operations are a model of efficient use of water, energy, land, and other key resources.

Adopt land use codes, building codes, green building standards, and fee structures that creates strong incentives for new development that is energy, water, and land efficient and supports a multi-modal transportation system.

Develop a strategy to use conservation and local renewable sources to meet Tier 2 power demands.

Plan for low-water years including potentially 2010 by:

- Implementing a public information and technical assistance campaign that encourages summer time conservation.
- Consider the options for a summer time surcharge to encourage efficient irrigation practices prior to June 1, 2010.

SOCIAL EQUITY

Complete the sale of a portion of the Clay Street Property to Parks and Recreation and decide whether to develop or sell the remaining land.

Convene a discussion of stakeholders working on issues related to homelessness to develop a plan for:

- Replacing services previously provided by ICCA.
- Developing an emergency shelter for minors.
- Improving connections to services available in Jackson County to Ashland's homeless.
- Ensuring Jackson County's 10 Year Plan addresses the specific issues faced in Ashland.

ORGANIZATION

Develop plan for fiscal stability, manage costs, prioritize services, and insure key revenue streams for the City and Parks & Recreation.

Address issues the stability of the organization including employee recruitment and retention; succession planning; and effective and increased use of citizen volunteers.

PUBLIC FACILITIES

Develop a plan to replace Fire Station #2.

Define a long term strategy for the Ashland Fiber Network that improves its financial viability, provides high quality services to residents, and promotes healthy economic development.

PARTNERSHIPS

Foster strong collaboration of the local community, City, State and Federal leaders in efforts to improve the health of the Ashland watershed through reducing fire hazards and restoring forest health.

Advocate for the long-term viability of rail service to and through Ashland and encourage the use of rail through land use, transportation, and economic development planning.

INITIATIVES, continued

In the current fiscal year the City has:

1. Evaluated and updated capital projects on a needs and funding available basis as part of the annual budget process.
2. Implemented rates where needed for fiscal stability.
3. Began studies to evaluate ongoing operational needs, project funding and utility rate impacts.
4. Established new target fund balance minimums to enhance fiscal condition and created a reserve fund to begin building a reserve for future needs.
5. The City is preparing for anticipated PERS increases and is taking steps to evaluate alternatives to existing health care package costs.
6. The City completed and adopted a personnel classification study for most general service (non public safety) positions.
7. Management addressed disconnects in the General Fund to balance requirements with resources and to end the year with an increased ending fund balance, exceeding target.
8. School enrollments are growing at the university level and grade school level, with increased "returning students indicating growing enrollments in the future.
9. The City granted over \$120,000 for safety net services and \$570,000 to encourage Economic and Cultural activities.

FINANCIAL INFORMATION

Management is responsible for establishing and maintaining an internal control structure designed to ensure that assets of the City are protected from loss or theft and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurances that: (1) the cost of a control should not exceed the benefits likely to be derived; (2) management must use its best judgment to value the costs and benefits as it relates to cost of internal control.

The City's system of internal accounting controls is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition.

As a frequent recipient of federal, state and local financial assistance, the City must also have an adequate internal control structure in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and staff.

Tests were made of the government's internal control structure and of its compliance with applicable laws and regulations, including those related to federal financial assistance programs. Although this testing was not sufficient to support an opinion on the City's internal control system or its compliance with laws and regulation related to non-major federal financial assistance programs, the audit for the year ended June 30, 2010, disclosed no material internal control weaknesses or material violations of laws and regulations.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriations budget resolution approved by the City Council. All funds are included in the annual appropriated budget. The annual 2009-2010 budget was prepared on a fund basis with department, program and line item detail.

Accounting principles generally accepted in the United States of America require that management provide a discussion and analysis to accompany the financial statements. This letter of transmittal compliments management's discussion and analysis, and should be read in conjunction with it. The City's management's discussion and analysis can be found immediately following the report of the independent auditors.

Significant Impacts. The City's investment policy objectives are to preserve capital, maintain liquidity and diversification, and to attain a market rate of return throughout budgetary and economic cycles. Investments are valued at fair value as required by GASBS 31. Changes in the economy and investment market are prompting a review of the City's policy. As of June 30, 2010 the fair market value of the investment in the Local Government Investment Pool was 99.56% of the pool shares as reported in Oregon Short Term Fund audited financial statements. This resulted in recognizing a loss of \$45,765 due to a reduced value of the shares owned by the City at that time.

The City provides life and health coverage to its employees and their dependants. The City pays 95% for employees with management and all five bargaining units paying 5% of their premium. Other optional supplemental insurances are available to employees and are paid entirely by the individuals electing to carry them. The rising cost of employee benefits, especially health care and retirement, has prompted the City to contract with a consultant to review its compensation and classification system. The study included input from many of the represented and management employees for comparison to competitive employers in Oregon and northern California. The results of the review will provide meaningful information to manage costs in the coming years.

An actuarial review of other post employment benefit programs was performed during the year and the results from the study are incorporated within this report on pages 59 through 62 in the Notes to Basic Financial Statements section.

OTHER INFORMATION

Tax Limitation. Article IX of the Oregon Constitution contains various limitations of property taxes levied by local jurisdictions. The Constitution calls for taxes imposed upon property to be segregated into two categories: one to fund the public school system and community college and the other for local governments. The citizens of the State of Oregon approved a property tax limitation in November 1991 referred to as Measure 5. This constitutional amendment divides property taxes into an education category and an all other local government category. The education category property taxes were limited to \$15.00 per thousand of real market value (RMV) initially, and have been lowered to \$5.00 per thousand. The local government category is limited to \$10.00 per thousand. The 2009-2010 local government tax rate in the City of Ashland was \$4.59, well within the limitation. Voter approved general obligation debt is not subject to the \$10.00 limitation.

In November 1996 the citizens of the State of Oregon approved a property tax limitation referred to as Measure 47. Prior to enactment, this measure was repealed and replaced at a special election May 20, 1997, by Measure 50. Measure 50, after the 1996-1997 fiscal year, changed the property tax limitation on levies, rates assessment and equalization. Measure 50 includes a reduction of property tax to previous levels and a limit on the growth in assessed valuation, which will result in a limit on a tax increase in subsequent years. Specifically, Measure 50 rolled back the assessed value of each unit of property for the tax year 1997-98 to its 1995-96 "real market value" less ten percent. The Measure limited increases in assessed value in future years to 3% per year. The Measure also establishes a new permanent tax rate for each taxing district. Ashland's permanent rate for the operating levies is set at \$4.2865, although the City chose to levy only \$4.1973 of this amount in 2009-2010. The Measure also provides for voter approved Local Options for levies outside the limits. In May 1997, Ashland voters approved the three-year Ashland Youth Activities Levy as a Local Option Levy at a rate of \$0.97. The levy was renewed in May 2000 and again in May 2003 at a maximum rate of \$1.38. The 2003 renewal ended in fiscal year 2008. The City of Ashland is still receiving delinquent payments from Ashland Youth Activity Levy from the County.

A local option levy of \$0.20 was approved by the voters to provide extended library services in Ashland beginning in FY 2007-2008. It was renewed in FY 2008-2009 at \$0.13 and in FY 2009-2010 at \$0.19 per \$1,000 of valuation.

Recent Court Cases. Two recent court cases have brought into focus the potential impact legislative or judicial changes may have on the City. An Oregon Court of Appeals decision in the case of *Clarke v. Oregon Health Sciences University* has raised questions about the tort cap limits that are part of the Oregon Tort Claims Act and liability coverage in Oregon. This case may change the protection that Oregon public entities have relied on in ORS 30.270 and may allow public entity staff members to be sued individually. Also, an Oregon Supreme Court opinion in the *Urhausen v. City of Eugene* regarding the constitutionality of special tax levies allowed under ORS 310.155(3) may have an impact on the similar Youth Activity Levy approved by Ashland citizens in 2003. As a result the School District moved to a separate local option levy and the Youth Activity Levy sunset on June 30, 2008, without renewal.

Awards. The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for fiscal year ended June 30, 2009. This was the seventeenth year the City had submitted its report for review. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements. This award is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we intend to submit it to the GFOA to determine its eligibility for another certificate.

In addition, the City of Ashland received the GFOA's Award for Distinguished Budget Presentation for its annual 2009-2010 budget. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, as an operational guide, as a financial plan and as a communication device.

Acknowledgments. The timely preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the City of Ashland Administrative Services/Finance Department, all other departments and the Ashland Parks and Recreation Commission staff. Each member has our sincere appreciation for the contribution made with special thanks to the Accounting Division and Finance Administration staff for their dedicated efforts in maintaining the accounting systems, audit preparation and report writing.

Sincerely,

A handwritten signature in black ink, appearing to read "Martha Bennett". The signature is fluid and cursive, with a large initial "M" and "B".

Martha Bennett
City Administrator

Lee Tuneberg
Administrative Services and Finance Director



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Ashland
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**CITY OF ASHLAND
ELECTED CITY OFFICIALS
June 30, 2010**

<u>Name</u>	<u>Position</u>
John Stromberg 252 Ridge Road Ashland, OR 97520	Mayor
Pam B. Turner P.O. Box 1299 Ashland, OR 97520	Municipal Judge
Barbara Christensen 759 Willow Street Ashland, OR 97520	Recorder/Treasurer
David Chapman 390 Orchard Street Ashland, OR 97520	Council Member
Kate Jackson 359 Kearney Street Ashland, OR 97520	Council Member
Greg Lemhouse 2850 Wedgewood Ashland, OR 97520	Council Member
Eric Navickas 363 Iowa Ashland, OR 97520	Council Member
Russ Silbiger 562 Ray Lane Ashland, OR 97520	Council Member
Carol Voisin 908 Fox Street Ashland, OR 97520	Council Member

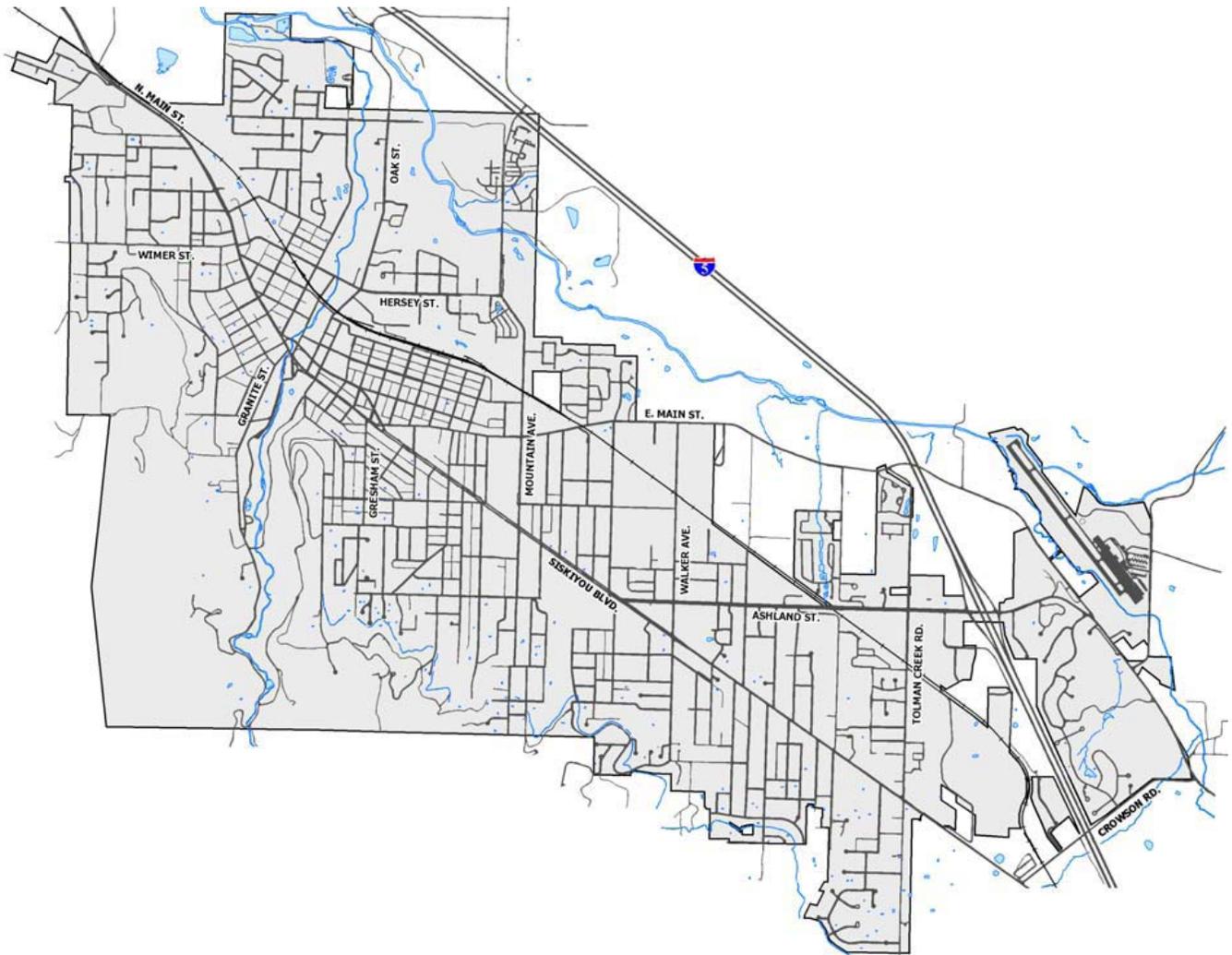
**CITY OF ASHLAND
APPOINTED CITY OFFICIALS
June 30, 2010**

<u>Name</u>	<u>Position</u>
Martha Bennett 223 Eastbrook Way Ashland, OR 97520	City Administrator
Richard Appicello P.O. Box 1333 Ashland, OR 97520	City Attorney
Mike Faught 4015 Payne Rd. Medford, OR 97504	Public Works Director
Terry Holderness 50 Pine Street Ashland, OR 97520	Police Chief
Scott Johnson 8444 Yank Gulch Rd. Talent, OR 97540	Interim Electric Director
John Karns 440 Wiley Street Ashland, OR 97520	Fire Chief
Rob Lloyd 402 N Laurel St Ashland, OR 97520	Information Technology Director
William Molnar 155 Hillcrest Street Ashland, OR 97520	Community Development Director
Darlow "Lee" Tuneberg 327 Starflower Lane Ashland, OR 97520	Administrative Services/ Finance Director / Budget Officer

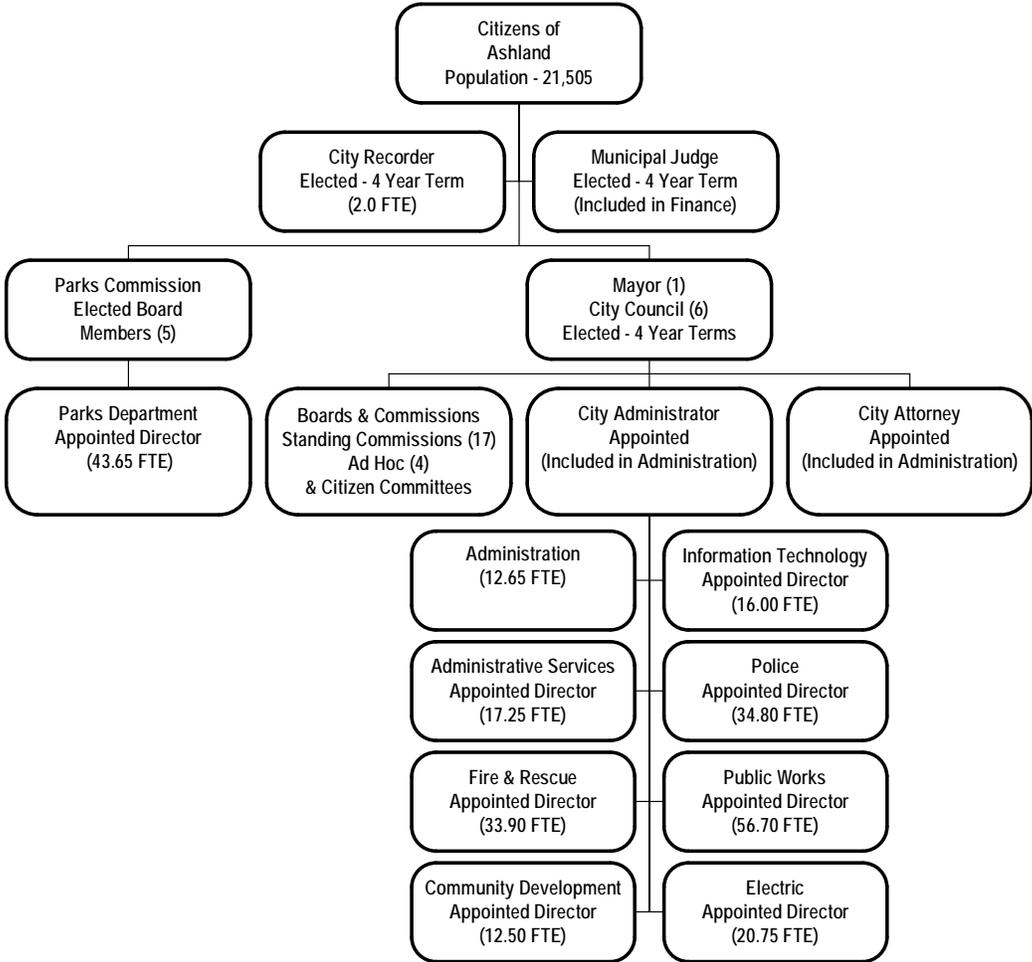
CITY OF ASHLAND



Vicinity Map 2010



City of Ashland
252.20 FTE
Adopted





CITY OF
ASHLAND

October 25, 2010

The City Council and
The Ashland Parks and Recreation Commission
City of Ashland, Oregon

The Audit Committee was established by the City Council to perform certain tasks relating to the annual audit. The Ashland Parks and Recreation Commission, a component unit of the City of Ashland, has delegated similar responsibilities to the Audit Committee for their annual audit process.

In fulfilling its responsibilities, the Committee, on a regular basis, participates in selecting the City's auditor. The Committee interviews qualified, independent certified public accountants and discusses the overall scope and specific plans for the audit. The Committee recommends which municipally certified individual or firm is to be engaged by the City Council as the City's auditor.

At the conclusion of the annual audit, the Committee meets with the City's auditor to discuss the results of their audit and their evaluation of the City and Parks financial reporting. The Committee also discusses with the City's auditor the financial accounting and reporting processes, including the preparation of the financial statements for the City and Parks Commission, the safeguarding of the assets and other resources against unauthorized acquisition, use or disposition and other required accounting issues.

After receiving the annual reports and related documentation from the auditor and staff, evaluating the information and considering the potential for changes, the Committee makes recommendations to both elected bodies on acceptance of the respective annual report and changes deemed appropriate through the process.

Based upon the above, we accept the 2009-2010 Comprehensive Annual Financial Report (CAFR) and the related audit reports of the independent certified public accountants for the City of Ashland and the Ashland Parks and Recreation Commission and recommend the respective CAFR and auditor's reports be accepted by the Council and the Commission.

Respectfully submitted,

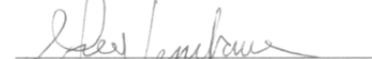
The Audit Committee


Guy Nutter, Member at Large, Chair


Dennis Slattery, Member
Representing Budget Committee


Roberta Stebbins, Member at Large


Barbara Christensen, City Recorder/
Treasurer Ex-Officio Member


Greg Lemhouse, Council Liaison

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